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SUMMARY COMMENTS ON EC CONSULTATION ON THE RENEWED SUSTAINABLE FINANCE STRATEGY

The AAE is supportive of the increased ambition of the European Green Deal and notes the urgency with which we need to act to tackle the climate and environmental-related challenges. We consider that major additional policy actions are needed to accelerate the sustainability transition of the EU financial sector.

The EU should take action to encourage investors to engage with companies conducting environmentally harmful activities, and to discourage investors from financing such activities. Corporates and financial institutions should be required to communicate on how their business strategies and targets contribute to reaching the goals of the Paris Agreement.

The main challenges for mainstreaming sustainability in the financial sector over the coming 10 years are:

- capital requirements for institutional investors are in favour of low risk investments, while the initial phase of sustainable investments tends to be higher risk.
- creation of incentives to enable the financial sector to take the required steps, subject to appropriate risk management disciplines.
- Introduction of clear, unambiguous and consistent communication, education, labelling and information provision, for instance to avoid "greenwashing".

Insurance and pension related legislation, e.g. Solvency II, IORPS, IDD (and PRIIPS) should be revisited to ensure that they encourage and facilitate consideration of ESG issues in investment decision making, and that sustainability risk considerations are integrated in regulatory frameworks. Solvency II regulation for instance should promote climate aware institutional investment within its risk-based ethos. Consideration could be given to the following aspects:

- Providing scope for actions needed without undue consequent increases in capital requirements. The short term nature of solvency measurement in Solvency II can act as a deterrent from long term investing, e.g. equities, based on the underpinned risk-based approach.
- The level of sustainability of business impacting directly on the Pillar 1 capital requirement.
- Centralized (governments and/or EU) guarantees on sustainable investments which are perceived as higher risk to improve their attractiveness by preventing a capital hit from investing in them.

National legislation and taxation rules can also create obstacles which must be addressed.

Pension funds have long term horizons, as do eco infrastructure and other sustainable projects. This presents a good cashflow matching opportunity, which should be a catalyst for sustainable investment.

Sustainable investments will require consideration of certain features, e.g. dividend policy (none for the first 5 years for instance), allowed trade frequency, measures to reduce speculative behaviour and to encourage investment behaviour, and allowances for illiquidity. Requirements for allocation of capital by different users should reflect appetite under headings above as well as investment time horizon.
The EU should take further action in encouraging development of sustainable Research and Investment projects. This should include providing and supporting access to financing.

EU macroprudential policy relating to financial sector should consider that backward looking assumption setting processes do not sufficiently account for increased risk of climate events and their systemic, interconnected and globalised nature.

There is scope for EU action to improve the offer of products and services for climate-related disaster risk reduction and to enhance insurers’ potential to promote increased resilience of their policyholders beyond a mere compensatory role. The AAE is currently contributing to the creation of solutions in this area.

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